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ABSTRACT

Designed for the general public and possibly suitable also for high school economics students, this pamphlet discusses the provisions of the Truth in Lending Law. The act requires that creditors state credit charges in a uniform way. The pamphlet provides a brief description of finance charges and annual percentage rates. It also focuses on specific requirements of the Truth in Lending Law that: (1) protect customers against unauthorized use of credit cards; (2) prohibit card issuers from sending customers credit cards unless requested or applied for; (3) regulate the advertising of credit terms; (4) give the customer a three-day wait to consider and cancel a credit transaction in which a customer's home is used as security; and (5) provide criminal penalties for willful violators. The final section presents a list of names and locations of federal enforcement agencies which deal with questions concerning particular creditors. (LH)

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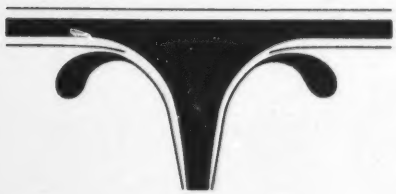
What Truth In Lending Means To You



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We all use credit in one form or another:

Some of us charge our purchases at department stores.

Others buy gas and oil or restaurant meals on credit cards.

We may buy a car or furniture on the instalment plan.

Almost everyone signs a mortgage when buying a house and sometimes when arranging for a major home improvement.

Occasionally we'll borrow money from a bank, finance company, or other lenders for vacation use, or perhaps to meet unexpected medical expenses.

In most cases, we have to pay a charge for the use of credit. The purpose of the Truth in Lending Law is to let consumers *know exactly what that charge is, and to let them make comparisons more readily* of the charges from different credit sources. The law, therefore, requires creditors to state charges in a uniform way.

Two To Remember

The law makes it easier for you to know two of the most important things about the cost of credit. One is the *finance charge*—the amount of money we pay to obtain credit. The other is the *annual percentage rate,* which provides a way of comparing credit costs regardless of the dollar amount of those costs or the length of time over which we make payments. Both the finance charge and the annual percentage rate must be displayed prominently on the forms and statements used by a creditor to make the required disclosures.

Let's suppose you borrow $100 for one year and pay $10 interest for that money. If you have use of the entire amount for one year you are paying an *annual percentage rate* of 10 per cent. But if you repay the $110 in 12 equal monthly instalments, you do not have use of the entire amount for the full year. In fact, over the entire year you have the use on the average of only about half the full $100. So the $10 charge for credit in this case becomes an *annual percentage rate* of 18 per cent.

Some creditors levy a service charge or a carrying charge or some other charge instead of interest, or perhaps they may add these charges to the interest. Under the Truth in Lending Law they must total all such charges, including the interest, and call the sum the *finance charge.* And then they must list the *annual percentage rate* of the total charge for credit.

The Truth in Lending Law does not fix interest rates or other credit charges. Your State may have a law setting a limit on interest rates, which would still apply.

Credit Cards

The law also protects you against unauthorized use of your credit card. In the event your credit card is lost or stolen, the maximum amount you have to pay for charges made by someone else is $50. In order for the card issuer to hold you liable for even that amount, the unauthorized use must have occurred *before* you notify the card issuer that your card is lost or stolen. You are not liable for any unauthorized use occurring after you notify the card issuer.

The law also prohibits card issuers from sending you a credit card unless you requested or applied for it. However, a card issuer may send you, without your request, a new card renewing one you requested or used previously.

Advertising

The law also regulates the advertising of credit terms. It says that if a business is going to mention one feature of credit in its advertising, such as the amount of downpayment, it must also mention all other important terms, such as the terms of repayment. If an advertisement states "Only $2 down," it must also state, for example, that you will have to pay $10 a week for the next two years. Here again, the intent is to provide you with full information, so that you can make informed decisions.

Cancellations

Another important provision of the law is designed for your protection in case your home is used as security in a credit transaction. This frequently occurs when a major repair or remodeling job is done on your home or when you take out a "second mortgage." When you enter into a credit transaction in which your home is used as security, the law gives you three business days to think about it and to cancel the transaction during that period if you wish. The creditor must give you *written notice of your right to cancel,* and if you decide to cancel the transaction, you must *do so in writing.*

When you have this right of cancellation, a contractor cannot start work until the three days are up. You may give up your right to cancel and get the work started without the three-day wait, if you notify the contractor in writing that you face a financial emergency and need the credit immediately.

The right of cancellation does not apply to a mortgage to finance the purchase of your home. And, if you use your home to secure an open-end credit line — a credit card or overdraft plan, for instance — the creditor does not have to allow you the right to cancel every transaction. You have the right to cancel only when you open the account or when your security interest or credit limit is increased.

Other Provisions

The law provides criminal penalties for willful violators, as well as civil remedies. You as an individual may sue if a creditor fails to make certain disclosures. You may sue for twice the amount of the finance charge—for a minimum of $100 to a maximum of $1,000—plus court costs and reasonable attorney's fees.

The law, and the regulations issued by the Board of Governors of the Federal Reserve System to carry it out, contain many other detailed provisions. Creditors should of course familiarize themselves with all of these to make sure they are complying with the law.

To Find Out More

A number of Federal agencies, and in some cases even State agencies, are responsible for enforcing Truth in Lending, depending upon the type and location of the company extending credit. If you have any questions about Truth in Lending in connection with a particular credit transaction, you may write to any Federal Reserve Bank or to the Board of Governors of the Federal Reserve System, Washington, D.C. 20551. Be sure to identify the name and location of the company extending credit so that your letter can be brought to the attention of the appropriate enforcement agency.

Federal Enforcement Agencies

National Banks

Comptroller of the Currency
Consumer Affairs Division
Washington, D.C. 20219

State Member Banks

Federal Reserve Bank serving the area in which the State member bank is located.

Nonmember Insured Banks

Federal Deposit Insurance Corporation Supervising Examiner for the District in which the nonmember insured bank is located.

Savings Institutions Insured by the FSLIC and Members of the FHLB System (except for Savings Banks insured by FDIC)

The FHLBB's Supervisory Agent in the Federal Home Loan Bank District in which the institution is located.

Federal Credit Unions

Regional Office of the National Credit Union Administration, serving the area in which the Federal Credit Union is located.

Creditors Subject to Civil Aeronautics Board

Director, Bureau of Enforcement
Civil Aeronautics Board
1825 Connecticut Avenue, N.W.
Washington, D.C. 20428

Creditors Subject to Packers and Stockyards Act

Nearest Packers and Stockyards Administration area supervisor.

Federal Land Banks, Federal Land Bank Associations, Federal Intermediate Credit Banks, and Production Credit Associations

Farm Credit Administration
490 L'Enfant Plaza West
Washington, D.C. 20578

Retail, Department Stores, Consumer Finance Companies, All other Creditors, and All Nonbank Credit Card Issuers (Lenders operating on a local or regional basis should use the address of the F.T.C. Regional Office in which they operate.)

Truth in Lending
Federal Trade Commission
Washington, D.C. 20580

Board of Governors of the Federal Reserve System
Washington, D.C. 20551
(Revised June 1981)